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UNITED NATIONS PENSION SYSTEM

Investments of the United Nations Joint Staff Pension Fund

Report of the Secretary-General

I. INTRODUCTION

1. The General Assembly decided in 1992 to take up pension matters biennially, in even-numbered years. The present report on the investments of the United Nations Joint Staff Pension Fund covers the period from 1 April 1996 to 31 March 1998. The investment of the assets of the Fund is the fiduciary responsibility of the Secretary-General of the United Nations, who acts in consultation with the Investments Committee, taking into account the observations on broad policy of the United Nations Joint Staff Pension Board and the General Assembly. The Investments Committee provides advice to the Secretary-General on investment strategy and reviews the investment portfolio in detail. The representative of the Secretary-General for the investments of the Fund, who has been delegated the responsibility for the management and administration of the investments of the assets of the Fund by the Secretary-General, is assisted by the staff of the Investment Management Service. All investments must meet the criteria of safety, profitability, liquidity and convertibility. These criteria have been endorsed by the General Assembly.

2. The report describes the economic and investment conditions that prevailed in the reporting period ended 31 March 1998 and provides information on the investment returns, diversification of the investments and the development-related investments of the Fund. The data are based on the audited financial statements for the two calendar years 1996 and 1997 and the unaudited appraisals for the quarter ended 31 March 1998. In order to provide the General Assembly with the most timely information available, some data have been updated to 30 June 1998.

II. ECONOMIC AND INVESTMENT CONDITIONS

3. The present section reviews the economic and investment environment that prevailed during the two years ended 31 March 1998. Economic activities and financial markets within countries tend to follow cyclical patterns. Through diversification of assets by currency, by geography and by type of investment, the Fund strives to benefit from the differences between markets in order to preserve the principal of the Fund and to achieve better and more stable investment returns than would otherwise be obtained. The management of the assets of the Fund has followed a relatively cautious strategy of minimizing risk in order to obtain overall positive returns over the periods.

A. Economy

4. During the biennium, the global economy grew at a moderate pace, led by North America and Europe, while Asia and the Pacific lagged as the Japanese economy remained in a prolonged slowdown and South-East Asia entered a period of turmoil in mid-1997. The environment was ideal for many financial markets because economic growth was accompanied by falling interest rates and low inflation in the major economies. In many countries, budget deficits fell as Governments implemented tighter fiscal policy. By the latter part of 1997, deflationary fears had grown in the wake of the Asian crisis and the weakness of several commodity prices, including that of oil and gold. The United States dollar remained strong during the biennium.

1. North America

5. The economy of the United States of America entered its sixth consecutive year of growth in 1997, as gross domestic product (GDP) rose 3.7 per cent after a 2.8 per cent increase in 1996. The successful administration of monetary policy by the Federal Reserve Bank resulted in sufficient liquidity and lowered expectations of inflation, which created an environment conducive to sustainable economic growth. The unemployment rate fell to 5.4 per cent in 1996 and 4.9 per cent in 1997, and despite concerns over tightness in the labour market, inflation fell to 2.9 per cent in 1996 and 2.4 per cent in 1997. The pace of innovation, particularly in information technology, has been a major factor in the economic expansion in the United States and in changing the character of the economic cycle. After several years of restructuring and efficiency enhancement throughout the economy, productivity continued to rise and labour productivity rose 2 per cent in 1996-1997, substantially higher than any increase in unit labour costs. The elimination of the federal budget deficit in fiscal year 1997 contributed to the view that interest rates would be kept low. The United States economy has maintained a strong pace of growth in the first quarter of 1998 despite the troubles in Asia and the Pacific but there could be deterioration in the trade accounts as Asia increases its exports. The Canadian economy also rebounded during the biennium, with GDP rising 1.4 per cent in 1996 and 3.5 per cent in 1997, while inflation fell to 1.5 per cent in 1997, the lowest level among the group of seven major industrialized countries.

2. Europe

6. In 1996, European economies were focused on meeting the criteria for joining the European Monetary Union (EMU) by the end of 1997. The emphasis placed on reducing government deficits muted European growth in 1996 but laid the foundation for the sustained economic recovery and buoyant stock market conditions seen in 1997 and 1998. Unemployment remained high in several countries and government spending was constrained by efforts to meet the Maastricht Treaty criteria. However, the strength of the United States dollar helped the growth of the export sector in continental Europe, which in turn played a major role in stimulating the revival of economic growth in Europe. Towards the end of 1997 there was also a clear resumption of growth in domestic consumption in continental European economies, which began to show the benefits of the restructuring that has been undertaken over the past few years at the corporate level and in fiscal policy. Economic growth in the United Kingdom of Great Britain and Northern Ireland was robust and base rates were cut three times in 1996 in response to low inflation. The United Kingdom had been ahead of the cycle of growth in the rest of Europe, and in the first quarter of 1998 the Bank of England tightened monetary policy to forestall any overheating of the economy. The British pound remained strong throughout the period under review and consumer confidence remained high.

3. Asia

7. The Japanese economy entered the second year of a moderate recovery as external demand, supported by the stabilized yen, turned out to be the driving force. Consumer spending was strong in the second half of the year before the increase in the consumption tax in April 1997. Real GDP grew at an annual rate of 3.6 per cent. The growth rate of industrial production reached nearly 5 per cent, led by the automobile industry and by capital expenditure for information/communication technology. However, the recovery did not last and was not as widespread as in the past since the elasticity towards external demand and eased credit had receded owing to structural problems, such as the relocation of production facilities overseas and the weakened financial system. The tight fiscal policy aimed at balancing the budget by raising income and consumption taxes and by drastically reducing investment in public works combined to affect the economy severely in 1997. Production adjustment in large ticket items such as automobiles and housing spread through the entire manufacturing sector and, subsequently, deflationary pressure started to affect the financial system through the decreased value of collateral assets. Compounding Japan's problems was the financial crisis in the rest of Asia. The growth rate of GDP in the calendar year 1997 declined to 0.3 per cent.

8. The period under review was a difficult and unprecedented one in Asia's economic development. In 1996, the primary concerns were fears of rising United States interest rates, slowing export growth and other specific domestic issues, such as the troubled property and financial sectors in Thailand, overheating of the property sector in Singapore, riots in Indonesia and the tensions in the Straits of Taiwan. All these issues paled in comparison as events unfolded in 1997. The devaluation of the Thai baht in early July highlighted the risks and weaknesses of the region's financial markets, resulting in a loss of investor

confidence. The contagion effect touched nearly all the currencies of the region, with the exception of the yuan renminbi, which is not freely convertible, and the Hong Kong dollar, which is pegged to the United States dollar. Interest rates across Asia rose sharply in response to the increased risk premium and the tight liquidity conditions. Indonesia, the Republic of Korea and Thailand were put under an International Monetary Fund (IMF) rescue package, while the Philippines delayed its exit from an IMF programme that it had entered earlier.

4. Other economies

9. Other developing economies exhibited varying rates of growth. Latin American economies recovered during the period under review and, by the end of 1997, inflation in the region had fallen to 11 per cent, its lowest rate in five decades. Thirteen countries had inflation rates in single digits in 1997. Privatization and deregulation increased and was met by rising inflows of foreign direct investment. The hyperinflation and currency devaluation of previous years was halted and as currencies stabilized, domestic consumption increased; by 1997, in fast-growing economies such as Argentina and Brazil, there were signs that some cooling off was necessary. Developing markets across the globe were hard hit by the crisis in Asia but among the worst affected was Brazil because of its large deficits and a currency that was seen as overvalued and therefore most vulnerable to devaluation. Economic performance in Africa was mixed as some countries continued to suffer from rising inflation, high interest rates and weak currencies. In eastern Europe, the Czech Republic, Hungary and Poland achieved positive economic growth and lower inflation, while in the Russian Federation, hyperinflation was finally halted but the country's fiscal problems persist.

B. Equities

1. North America

10. The economic fundamentals described above provided a solid base for the market's rise but support was also provided by strong growth in corporate profits, large inflows into equity mutual funds, share buybacks and mergers and acquisitions. Throughout the period, investors were concerned that the market was overheated but after a correction in the last quarter of 1997 on fears over the impact of events in Asia, equities resumed their upward trend. The strong performance of United States equities during the biennium was led by large capitalization companies, most of which have a global presence. The 25 best performing stocks in the Standard and Poor's index contributed nearly half of its rise in 1997; only 10 per cent of all diversified United States stock funds beat the Standard and Poor's index because they were underweighted in these top performers. The average size of core holdings in the Fund's United States equity portfolio was increased and smaller positions were eliminated. The portfolio's performance was helped by the weighting in the financial and technology sectors and the underweighting in utilities, which lagged the market. The Canadian equity portfolio outperformed the Toronto Stock Exchange 300 index because of the portfolio's exposure to the banking and transport sectors.

2. Europe

11. European equity markets were propelled by falling interest rates, corporate restructuring, greater attention to enhancing shareholder value and the shift of domestic funds from low-yielding fixed-income investments to the equity markets. International investors also became more confident about the outlook for Europe after the advent of EMU and reallocated funds to European equity markets as economic and company fundamentals were revalued. Some of the best performing markets in Europe were those that would benefit most from the convergence of interest rates ahead of EMU. The European markets benefited from some of the same factors that have fuelled the bull market in the United States: high liquidity, moderate economic growth, low inflation, mergers and acquisitions and corporate restructuring. Large capitalization, liquidity-driven stocks that were components of the index outperformed the markets in 1997 but in the first quarter of 1998 investors became more selective. European markets also suffered a correction in the fourth quarter of 1997 as investors worried about the impact of a sharp downturn in exports to Asia. These fears subsided by the first quarter of 1998 as domestic economies strengthened and pessimism about the financial crisis in Asia and the Pacific diminished; as a result, European equities rose, on average, 20 per cent.

3. Asia and the Pacific

12. In the first half of 1996, the Japanese stock market, as measured by the Nikkei average, rose from the 20,000 level at the beginning of the year to 22,750 in June, the peak for the reporting period. Accounting for the rise were positive expectations for the new Government and the anticipation of accelerating production activities. In the second half of the year, the general market trend lowered even though the Nikkei index stayed above 20,000 most of the time. Towards the end of the year, there was a further downturn in the stock market, as investors feared that the country's economy would be seriously affected. For the year, the Nikkei was down 2.6 per cent in yen terms and down 12.8 per cent in United States dollars. A corrective downturn continued in the first quarter of 1997 as investors lost confidence in the prospects for growth and scepticism about the financial system reappeared. The unwinding of cross-held shares and the flight to quality and liquidity created a two-tiered market in which only stocks of large capitalization blue-chip companies that were seen as globally competitive were bought. This two-tiered market phenomenon was evident throughout the period under review, except during the occasional bear market rally.

13. Although in the second quarter of 1997 Japan became the world's best performing market, mounting fears of bankruptcy and the worsening Asian crisis pushed the Nikkei index down almost in a straight line in the second half of the year. In the fourth quarter, the failure of a second-tiered brokerage firm triggered a liquidity crisis that led to a chain of bankruptcies and a sharp sell-off in the stock market. For the year 1997, the Nikkei index declined 21.8 per cent in local terms and 30.2 per cent in United States dollars. Japan had been underweighted relative to its weight in the Morgan Stanley Capital International World index. The Fund's Japanese portfolio was biased towards large capitalization blue-chip stocks, especially issues in the electronics

sector, which is Japan's most competitive industry. However, the average market capitalization of the portfolio is slightly below that of the Morgan Stanley Capital International Japan index because of the significant underweighting of the financial sector. Owing to the better earnings momentum, the Japanese portfolio's return significantly exceeded the Morgan Stanley Japan index return in 1997.

14. Regional markets turned in mixed performances in 1996, but the performance of the Morgan Stanley Capital International Pacific Free ex-Japan index was helped by the strong performance of Australia and Hong Kong. However, the financial crisis in the second half of 1997 dragged down almost all equity markets in the region to end the period sharply lower. In particular, South-East Asian markets were the worst hit, owing to the big currency devaluation and a high interest rate environment that increased the risk of defaults. There were sharp corrections in the stock markets in northern Asia because of the Republic of Korea's financial troubles and Hong Kong's dollar peg, which proved to be costly to maintain. Australia, although more insulated from Asia's turmoil, was not spared either. China, India and Taiwan Province of China were the only markets recording a positive return for the period. The portfolio's exposure to the Pacific Basin ex-Japan was gradually reduced during 1997 and there was a net reduction in overall Asian investment. The Fund outperformed the Morgan Stanley Capital International Pacific Free ex-Japan index in both the developed and emerging markets of the region.

4. Other markets

15. Foreign inflows into the Middle East and Africa also rose during the period, sparked by privatization and liberalization. International investors discovered that equity valuations in several African markets were low and markets in Botswana and Ghana rose sharply. Eastern European markets showed mixed performance, with Hungary being the most stable because of large privatizations and the high visibility of corporate earnings. After an outstanding year in 1996, the Russian market suffered a big correction in 1997 after the Asian crisis. The flow of funds to emerging equity markets has fallen in 1998 as the flight to quality has driven investors to the safe haven of major markets that can provide liquidity in volatile times.

C. Bonds

16. Subdued worldwide inflation ensured that bond yields generally declined during the biennium. Yields on United States dollar bonds fell in 1997 despite strong economic growth because of a balanced federal budget and expectations of continued low inflation in the wake of the slowdown in Asian and Pacific economies. European bond yields also fell as the economies reaped the benefits of the convergence of interest rates ahead of EMU. Buoyed by a healthy economy, the United States dollar strengthened against most European currencies and the Japanese yen during 1997 and 1998. Short-term interest rates were relatively stable on the expectation that weak demand from Asia would slow down most economies during the second half of 1998.

17. The total bond portfolio had a return of 3.6 per cent and 7 per cent for the years ended 31 March 1997 and 31 March 1998, respectively, ahead of the Salomon Brothers World Government Bond Index, which had a return of 1.2 per cent and 5.4 per cent during the same period. For the year ended 31 March 1998, United States dollar bonds returned 10.6 per cent against 12.2 per cent by the Salomon Brothers Index. Non-United States dollar bonds outperformed the Index, with a return of 4.3 per cent versus 2 per cent by the Index. The performance of the Fund's bond portfolio was helped by overweight positions in United States and United Kingdom bonds and an underweight position in yen bonds. The initial investments in Spanish and Italian bonds also contributed to the portfolio's good returns as both countries benefited from lower interest rates in the convergence ahead of EMU.

D. Real estate

18. The Fund's real estate investments outperformed both bonds and cash and was a close second to equities for the periods ending 31 March 1997 and 31 March 1998, with returns of 8.6 per cent and 18.9 per cent, respectively. The major contributor to this performance was United States public and private investments, both of which had double-digit returns. The non-United States portfolio also performed well during this period but, with the exception of the United Kingdom, gains were eroded by the strength of the United States dollar. The Fund invests only in publicly traded vehicles, commingled funds, investment trusts and unit trusts. It does not invest directly by purchasing buildings or land. The majority of the Fund's real estate investments are concentrated in the United States, which proved to be beneficial during the biennium because of the strong economic environment. The suburban and central business district office markets nationwide experienced declining vacancies, rising rents, recovering values and attractive returns. Steady economic growth fuelled demand for all types of industrial properties, while the residential sector remained steady despite new construction. Retail properties continued to underperform all other property sectors because of weakness in the growth of business at regional malls. The strong growth of publicly traded real estate investment trusts in the United States has created a formidable new asset class for investment in the industry. In Europe, there were many opportunities to buy assets at discounts to replacement costs. In Asia, however, the crisis in the second half of 1997 led to a collapse in the linked foreign exchange, credit and securities markets; the biggest losses occurred in shares of listed property companies.

III. INVESTMENT RETURNS

A. Total return

19. The market value of the Fund's assets increased to US$ 20,170 million on 31 March 1998 from $15,539 million on 31 March 1996, an increase of $4,631 million, or 29.8 per cent. The total investment return for the year to 31 March 1997 was 8.9 per cent and for the year to 31 March 1998 was 20.4 per cent. After adjustment by the United States consumer price index,

these represent positive real rates of return of 5.9 per cent and 18.9 per cent, respectively.

20. The major contribution to performance during the year ended 31 March 1997 came from market weighting, particularly in France, the Netherlands, Sweden, the United Kingdom and the United States. This contribution was reduced by commitment to Japan. Selection of securities had a positive contribution to total return, particularly stock selection in Japan. As almost all major currencies depreciated against the United States dollar during the two-year period ended 31 March 1998, the overall currency effect on the Fund was negative. The Fund's exposure to United States equities contributed more to the total return than did any other asset class held by the Fund. For the year ended 31 March 1998, market weightings again contributed significantly to the Fund's total return. The equity portfolio outperformed all other asset classes significantly, with United States equities providing the highest total return of 45.5 per cent, followed by real estate with 18.9 per cent. Bonds denominated in United States dollars did better than bonds denominated in other currencies.

21. The rates of return shown in the present report have been calculated by an outside consultant, using a generally accepted method that was fully explained in the report on the management of the investments submitted to the Board at its thirty-fourth session. The calculation includes actual income received from dividends and interest as well as realized capital gains and losses. It also takes into account changes in the market value of the investments and the timing of cash flows.

22. Table 1 shows the contribution of each asset class to the total return for the years 1995 to 1998.

Table 1. Total Fund: percentage rates of total return based on market value for the years ending 31 March

	1998	1997	1996	1995
Equities				
United States equities	45.5	18.9	30.2	11.1
Equities outside United States	15.4	7.2	15.1	6.5
Total equities	27.3	11.6	20.5	8.1
Bonds				
United States dollar bonds	10.6	6.2	8.0	2.9
Non-United States dollar bonds	4.3	2.5	3.3	18.6
Total bonds	7.0	3.6	5.1	12.9
Real estate	18.9	8.6	10.4	0.0
Short-term investments and reserves	7.0	4.4	4.1	5.0
Total Fund	20.4	8.9	14.6	8.7

23. For the year ended 31 March 1997, the highest return was provided by the equity portfolio, which had a total return of 11.6 per cent, followed by the real estate portfolio with 8.6 per cent. For the year ended 31 March 1998, the equity portfolio again provided the highest total return, which at 27.3 per cent was significantly higher than the 7 per cent provided by the bond portfolio. Real estate was again the second-best performing asset class, with a total return of 18.9 per cent. In each of the four years shown in table 1, United States equities outperformed non-United States equities, while United States bonds outperformed non-United States bonds in 1998, 1997 and 1996. The consistent increase in the allocation to North American currencies contributed positively to performance through the big increase in exposure to United States equities and bonds. In 1998, the performance of all the major equity portfolios in United States dollar terms, except for Japanese equities, was better than in 1996 and 1997. Market weightings contributed more to the performance of these equity portfolios, including Japan. In other words, being overweight relative to the respective Morgan Stanley Capital International indices in Europe and being underweight in Japanese equities made a positive contribution to the total return. The currency impact was positive in Japan but negative in Europe.

24. It must be stressed again that short-term results have little meaning in the context of a long-term investment strategy. Short-term results are largely influenced by the volatility of securities markets, which is difficult to predict and impossible to control. The management of the Fund is geared towards maintaining a careful balance between the expectations of risk and reward over the medium to long term, rather than towards taking the risk inherent in seeking high short-term returns. These considerations are even more pertinent now, taking into account the economic and market environment experienced during the period under review.

25. Since the end of the reporting period, worldwide economic growth has slowed but inflation remains low and interest rates continue to decline in major markets. The financial markets have been extremely volatile, especially from the latter part of July until early September. The major equity markets have declined by an average of 10 per cent, while the smaller emerging markets have declined by about 25 per cent. However, the bond markets, especially in the United States, Germany and the United Kingdom, have experienced the largest increase in recent years. Most major currencies have appreciated against the United States dollar during the period but the currencies of the Asian emerging markets have declined significantly.

26. The value of the Fund on 8 September 1998 was $19.4 billion; the equity portion declined by 10 per cent, while the asset allocation consisted of 62 per cent equities, 28 per cent bonds, 6 per cent short-term investments and 5 per cent real estate. This compares with $20.1 billion as at 31 March 1998 and represents a decline of about 3 per cent. The benchmark declined by about the same percentage during the period. The equity portion of the portfolio declined while the bond and cash positions increased.

B. Long-term rates of return

27. The strategy of the Fund requires a focus on returns that cover periods longer than one year. The highest total annualized return of 22.3 per cent occurred during the five-year period 1983-1987, owing mostly to the strong performance of the financial markets during that period. The Fund's three highest returns were also provided during that period. While the five-year moving cumulative annualized rate of return has been lower than at its peak in 1987, the Fund has experienced consecutive positive returns in the 16 years since 1983, as is shown in table 2. For the past three years, 1996, 1997 and 1998, the returns were 14.6 per cent, 8.9 per cent and 20.4 per cent, respectively. The cumulative annualized total returns for the past 5, 10, 15, 20 and 25 years were approximately 12.4 per cent, 10.8 per cent, 12.9 per cent, 12.5 per cent and 10 per cent, respectively. The cumulative annualized total rate of return over the 38-year period for which data are available was 9 per cent, representing a yearly real rate of return of 3.8 per cent after adjustment by the United States consumer price index. Detailed information on the Fund's return over the past 38 years can be found in tables 2 and 3. Table 2 also shows that since 1962 there was only one year in which two asset classes had negative returns at the same time.

Table 2. Total Fund: annual total rate of return, percentages based on market value, 31 March 1962-31 March 1998

	Equities				Bonds							
Year	United States	Outside United States	Total	MSCI Index[a]	United States	Outside United States	Total[b]	SBWGB Index[c]	Real estate	Short term	Total Fund	Year
1962	12.37	0.87	11.65	-	-	-	3.91	-	-	-	6.61	1962
1963	(0.60)	(16.34)	(0.59)	-	-	-	5.49	-	-	-	4.07	1963
1964	18.18	7.48	17.45	-	-	-	2.12	-	-	-	8.24	1964
1965	10.89	8.30	10.44	-	-	-	4.41	-	-	-	6.98	1965
1966	4.53	3.22	4.31	-	-	-	(2.14)	-	-	-	0.66	1966
1967	11.76	(2.32)	8.98	-	-	-	3.97	-	-	-	7.91	1967
1968	2.86	28.30	7.46	-	-	-	(4.89)	-	-	-	1.60	1968
1969	13.35	20.07	14.64	-	-	-	2.66	-	-	-	9.09	1969
1970	(5.10)	(2.18)	(4.49)	-	-	-	1.41	-	-	-	(1.75)	1970
1971	13.94	3.31	11.46	9.28	-	-	14.10	-	-	8.73	13.53	1971
1972	14.13	34.30	18.33	16.92	-	-	9.41	-	11.58	7.15	16.98	1972
1973	5.85	20.77	9.49	13.47	-	-	7.40	-	4.78	5.92	8.55	1973
1974	(16.70)	(21.48)	(18.10)	(16.40)	-	-	1.92	-	10.18	10.70	(13.55)	1974
1975	(11.20)	11.60	(5.16)	(6.09)	6.20	14.63	6.55	-	(1.03)	12.35	0.18	1975
1976	16.37	10.76	14.58	15.59	11.22	1.91	10.02	-	5.16	7.70	13.16	1976
1977	(8.25)	(3.75)	(6.62)	(0.95)	10.40	15.20	11.06	-	3.70	5.20	(0.26)	1977
1978	(5.60)	20.31	4.16	6.11	5.62	24.39	8.72	-	8.25	7.67	6.12	1978
1979	22.36	21.67	22.07	21.27	4.70	12.50	6.63	8.04	16.86	8.56	15.07	1979

Year	Equities				Bonds				Real estate	Short term	Total Fund	Year
	United States	Outside United States	Total	MSCI Index[a]	United States	Outside United States	Total[b]	SBWGB Index[c]				
1980	10.89	(10.31)	1.08	(0.18)	(9.53)	(4.64)	(7.63)	(13.16)	17.42	11.75	(0.39)	1980
1981	43.19	39.60	41.45	34.80	14.99	9.45	12.51	20.38	14.71	15.76	26.60	1981
1982	(17.88)	(19.64)	(18.77)	(15.00)	11.08	0.40	6.20	(0.69)	17.51	17.95	(7.85)	1982
1983	40.91	23.60	33.55	31.60	32.53	14.54	24.89	20.54	7.07	12.76	27.05	1983
1984	5.08	32.46	15.66	17.30	5.46	12.42	8.67	8.20	13.33	13.07	13.01	1984
1985	20.75	(6.82)	9.54	7.20	17.86	(8.22)	4.53	5.50	13.47	3.62	8.09	1985
1986	34.95	58.48	43.44	56.02	54.30	50.33	51.21	48.70	10.75	6.95	41.52	1986
1987	21.63	43.88	30.01	43.22	9.14	32.63	22.59	17.42	12.67	11.97	24.69	1987
1988	(12.18)	2.15	(4.74)	5.81	3.26	20.24	12.65	11.42	9.19	7.67	3.10	1988
1989	13.20	10.00	11.30	13.56	2.10	(5.50)	(2.40)	0.36	8.20	10.40	5.90	1989
1990	21.54	13.21	16.57	(2.30)	10.47	2.93	6.20	3.12	12.31	9.72	11.56	1990
1991	8.9	1.2	4.5	3.2	12.5	17.4	15.0	16.2	5.1	13.1	8.9	1991
1992	11.3	0.1	4.9	(0.5)	13.7	14.0	14.0	14.0	(4.1)	6.5	7.6	1992
1993	17.3	6.7	11.2	12.7	15.9	17.7	16.9	19.0	(6.6)	7.5	11.6	1993
1994	(2.7)	24.4	12.4	14.0	3.4	10.1	7.7	6.8	0.5	3.0	9.7	1994
1995	11.1	6.5	8.1	9.8	2.9	18.6	12.9	12.1	0.0	5.0	8.7	1995
1996	30.2	15.1	20.5	20.6	8.0	3.3	5.1	5.3	10.4	4.1	14.6	1996
1997	18.9	7.2	11.6	9.8	6.2	2.5	3.6	1.2	8.6	4.4	8.9	1997
1998	45.4	15.4	27.3	32.4	10.6	4.3	7.0	5.4	18.9	7.0	20.4	1998

[a] MSCI Index - Morgan Stanley Capital International Index consists of 22 major equity markets.

[b] The proportion of bonds held outside the United States was not significant prior to 1975.

[c] SBWGB Index - Salomon Brothers World Government Bond Index consists of 18 major bond markets.

Table 3. Total Fund: annual rates of return based on market value, percentages for selected periods ending 31 March

	1998	1997	1996	5 years through 1998	10 years through 1998	15 years through 1998	20 years through 1998	25 years through 1998	38 years through 1998[a]
United States equities	45.4	18.9	30.2	19.4	16.9	15.5	16.0	11.3	10.5
Equities outside United States	15.4	7.2	15.1	13.6	9.8	14.2	12.8	10.6	10.4
Total equities	27.3	11.6	20.5	15.8	12.6	14.3	14.1	10.5	10.2
United States bonds	10.6	6.2	8.0	6.5	8.9	11.5	11.1	10.2	8.1
Bonds outside United States[b]	4.3	2.5	3.3	7.6	8.3	12.0	10.5	-	-
Total bonds	7.0	3.6	5.1	7.3	8.6	11.9	10.9	10.3	8.1
Real estate related[c]	18.9	8.6	10.4	7.5	5.2	7.3	9.1	8.3	-
Short-term investments	7.0	4.4	4.1	4.5	6.9	7.4	8.9	8.8	-
Total Fund in United States dollars	20.4	8.9	14.6	12.4	10.8	12.9	12.5	10.0	9.0
Inflation-adjusted return (based on United States CPI)	18.9	5.9	11.5	9.8	7.2	9.2	7.3	4.4	3.8
Total Fund in ECU	30.4	17.4	21.5	14.9	12.5	-	-	-	-
Inflation-adjusted return (based on ECU countries' CPI)[d]	28.6	15.1	18.3	12.3	9.0	-	-	-	-

[a]The Fund's performance has been calculated for the past 38 years.
[b]The proportion of bonds held outside the United States was not significant prior to 1975.
[c]No real estate investments were held prior to 1972.
[d]No significant data prior to 1979.

IV. DIVERSIFICATION

28. Diversification is the spread of assets among a variety of securities or among securities in a variety of markets with the goal of reducing risk in a portfolio without reducing the expected return. The Fund's policy of a broad diversification of its investments by currency, types of asset classes and geographical areas continued to be the most reliable method of reducing risk and improving returns over long periods of time. The Fund is unique among major pension funds in its commitment to global investment. Figure I shows the diversification of the assets of the Fund by types of investment while figures II and III show the diversification by geography and currency for the past three years.

29. In terms of geographical diversification, the proportion of the Fund invested in North America rose to 46 per cent from 38 per cent. Investments in Europe were increased to 36 per cent from 32 per cent. In Asia and the Pacific, the proportion of investments fell significantly to 13 per cent from 24 per cent. The sharp decrease was caused by a reduction of the exposure to the region by selling some of the holdings and by the sharp decline in the market from November 1997 to date. With geographic changes, currency diversification also changed, as discussed above.

30. Diversification in terms of asset class, currency and region had a significant impact on the performance of the Fund. Tables 4, 5 and 6 indicate that over the past 10 years currency movements against the United States dollar contributed either negatively or positively to the Fund's performance. Investing in only one currency would have had a negative impact on the performance as the movements of the currencies against the dollar are not synchronized. There were several times when the total returns were negative in local currencies but positive in dollar terms.

Figure I. Total Fund: diversification of assets
31 March 1996, 1997 and 1998
(percentage)

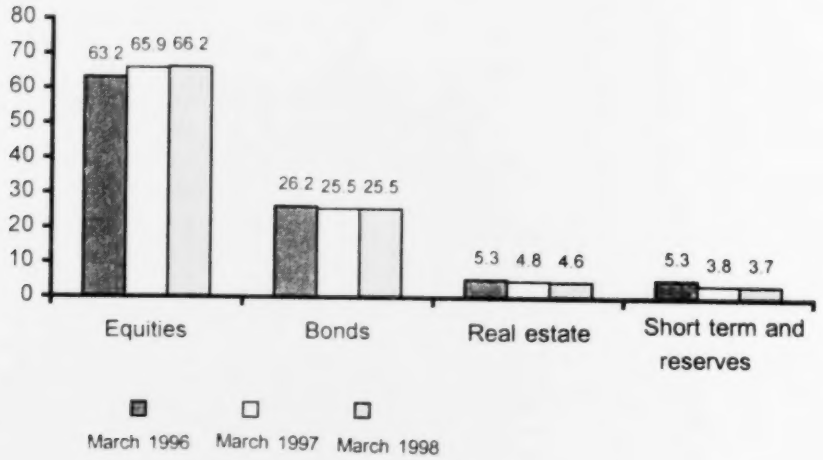

Figure II. Total Fund: geographic diversification
31 March 1996, 1997 and 1998
(percentage)

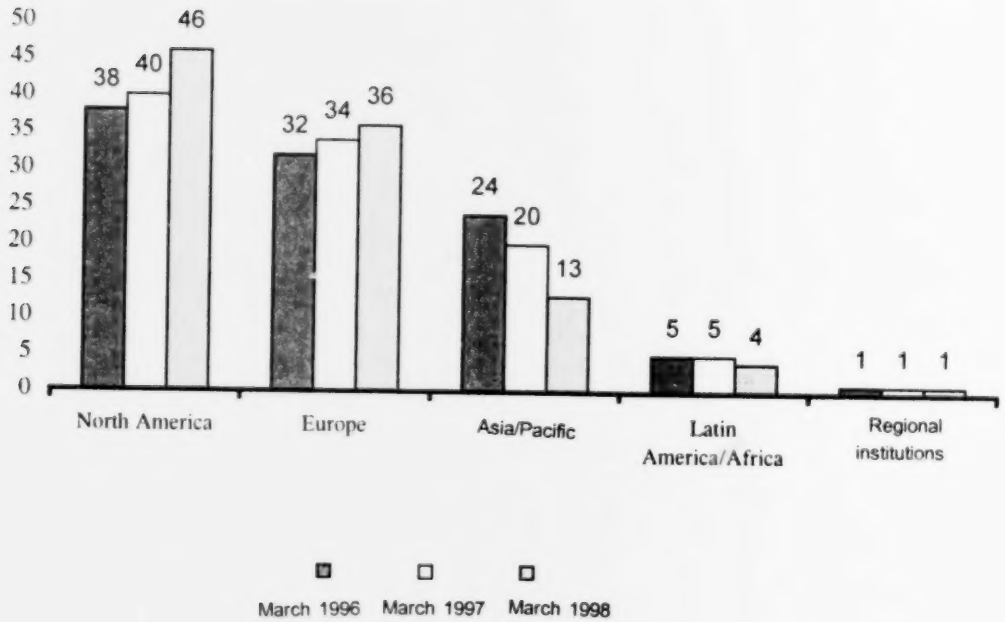

Figure III. Total Fund: currency diversification
31 March 1996, 1997 and 1998
(percentage)

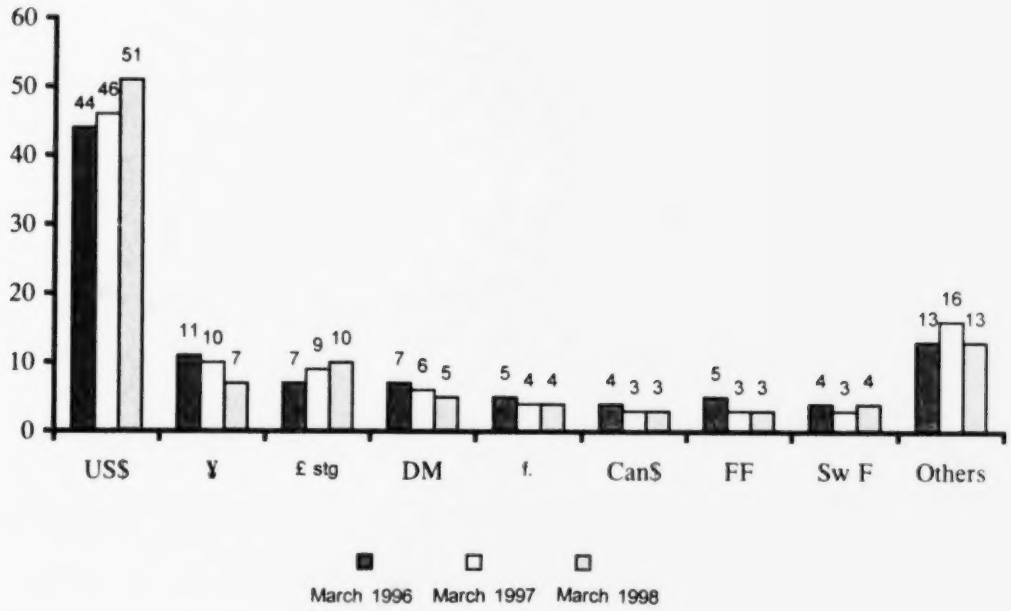

Table 4. Total Fund: countries/areas of investment[a] Market value as at 31 March 1998

(Millions of United States dollars)

Countries/areas	Currencies other than United States dollars	United States dollars	Total	Percentage
Argentina	0.0	74.0	74.0	0.37
Australia	331.0	36.7	367.7	1.82
Austria	27.0	21.0	48.0	0.24
Belgium	68.8	0.0	68.8	0.34
Brazil	109.2	17.4	126.6	0.63
Canada	646.3	26.2	672.5	3.33
Chile	0.0	37.7	37.7	0.19
China	5.0	4.3	9.3	0.05
Hong Kong, Special Administrative Region	193.4	16.8	210.2	1.04
Cyprus	0.0	15.0	15.0	0.07
Denmark	163.2	0.0	163.2	0.81
Egypt	0.0	7.4	7.4	0.04
Emerging markets	0.0	33.2	33.2	0.16
Finland	130.2	0.0	130.2	0.65
France	553.7	0.0	553.7	2.75
Germany	1 058.4	63.4	1 121.8	5.56
Ghana	0.0	3.7	3.7	0.02
Greece	23.8	0.0	23.8	0.12
Hungary	0.0	18.6	18.6	0.09
Iceland	0.0	14.9	14.9	0.07
India	3.9	28.5	32.4	0.16
Indonesia	0.0	2.3	2.3	0.01
Ireland	171.1	10.6	181.7	0.90
Israel	0.0	24.7	24.7	0.12
Italy	370.5	21.9	392.4	1.95
Japan	1 353.7	15.5	1 369.2	6.79
Jordan	7.0	0.0	7.0	0.03
Kenya	0.8	0.0	0.8	0.00
Malaysia	42.4	39.9	82.3	0.41
Mauritius	0.0	2.6	2.6	0.01
Mexico	56.3	49.4	105.7	0.52
Netherlands	713.5	0.0	713.5	3.54
New Zealand	146.1	0.0	146.1	0.72
Norway	59.7	0.0	59.7	0.30
Pakistan	0.0	1.8	1.8	0.01
Peru	2.1	1.0	3.1	0.02
Philippines	32.4	24.3	56.7	0.28
Poland	0.0	18.1	18.1	0.09
Portugal	7.1	19.2	26.3	0.13
Qatar	0.0	11.1	11.1	0.06
Republic of Korea	0.0	89.0	89.0	0.44
Saudi Arabia	0.0	3.7	3.7	0.02

Countries/areas	Currencies other than United States dollars		United States dollars		Total	Percentage
Singapore	85.9		4.6		90.5	0.45
Slovenia	0.0		25.4		25.4	0.13
South Africa	66.6		35.2		101.8	0.50
Spain	199.9		0.0		199.9	0.99
Sweden	331.5		0.0		331.5	1.64
Switzerland	586.4		20.5		606.9	3.01
Taiwan Province of China	0.0		9.9		9.9	0.05
Tunisia	4.3		3.8		8.1	0.04
Turkey	9.4		0.0		9.4	0.05
United Kingdom of Great Britain and Northern Ireland	2 024.2		62.7		2 086.9	10.35
Zimbabwe	2.8		0.0		2.8	0.01
Regional institutions – Africa	0.0		99.2		99.2	0.49
Regional institutions – Asia, emerging markets	0.0		13.9		13.9	0.07
Regional institutions – Europe	221.3		70.7		292.0	1.45
Regional institutions – Latin America	61.4		131.4		192.8	0.96
Regional institutions - South-East Asia	52.6		135.8		188.4	0.93
International institutions	0.0		174.8		174.8	0.87
Total outside United States of America	9 922.9	49.2%	1 548.6	7.7%	11 471.5	56.9
United States of America	0.0		8 698.1	43.1%	8 698.1	43.1
Total Fund	9 922.9	49.2%	10 246.7	50.8%	20 169.6	100

[a] The country of investment is generally based on the domicile of the issuer. Convertible securities are classified according to the currency into which they are convertible. Various investment trusts, which trade in currencies other than the currencies of the investments, are classified under the countries.

Table 5. Total Fund: currencies other than United States dollars[a] Market value as at 31 March 1998

Currency	United States dollar equivalent (millions)	Percentage
Australian dollar	331.0	3.4
Austrian schilling	27.0	0.3
Belgian franc	68.8	0.7
British pound	2 028.0	20.7
Brazilian real	109.2	1.1
Canadian dollar	673.3	6.9
Danish krone	163.3	1.7
Deutsche mark	1 058.5	10.8
European currency unit	7.1	0.1
Finnish markka	130.3	1.3
French franc	553.7	5.7
Greek drachma	23.8	0.2
Hong Kong dollar	198.5	2.0
Irish punt	171.1	1.8
Italian lira	370.5	3.8
Japanese yen	1 395.8	14.3
Jordanian dinar	7.1	0.1
Kenyan schilling	0.8	0.0
Malaysian ringgit	35.2	0.4
Netherlands guilder	713.5	7.3
Mexican New peso	29.3	0.3
New Zealand dollar	146.1	1.5
Norwegian krone	59.7	0.6
Peruvian New Sol	2.1	0.0
Philippine peso	32.4	0.3
Singapore dollar	93.1	0.9
South African rand	66.6	0.7
Spanish peseta	199.8	2.0
Swedish krona	331.5	3.4
Swiss franc[b]	733.5	7.5
Turkish lira	9.4	0.1
Zimbabwe dollar	2.8	0.0
Total non-United States dollar	9 772.8	100.0

[a] Convertible securities are classified according to currency into which they are convertible.
[b] Includes various investment trusts, which trade in currencies other than the currencies of the investment.

V. INVESTMENTS IN DEVELOPING COUNTRIES

31. In its resolution 36/119 of 10 December 1981 on the investments of the United Nations Joint Staff Pension Fund, the General Assembly endorsed the policy of diversification of the investments of the Fund in developing countries, wherever this serves the interests of the participants and beneficiaries, in accordance with the four criteria of safety, profitability, liquidity and convertibility. The Fund has continued its efforts, in accordance with the established investment criteria, to identify appropriate investment opportunities. Direct and indirect investments in developing countries amounted to $1,657 million at cost on 30 June 1998, a decrease of 1.2 per cent since 30 June 1996. Details of the investments are provided in table 6. Most of the decrease resulted from the sale of bonds issued by regional banks, some of which were sold at a profit while others had matured during the period. The proceeds were invested in various developing countries as opportunities became available in both equities and bonds. Investments were initiated in Egypt, Qatar, Saudi Arabia and Zimbabwe. Development-related investments accounted for 12 per cent of the Fund's assets at book value; about 26 per cent of these holdings were denominated in currencies other than the United States dollar.

32. The Investment Management Service continues to have close contacts with the World Bank, the International Monetary Fund, regional development banks and other sources in order to take advantage of investment opportunities in developing countries. Investment visits were undertaken in Africa, Asia, eastern Europe, Latin America and the Middle East during the period under review and several new equity positions were initiated during the period in various emerging markets. The current investment environment is favourable for emerging market debt instruments, which have high yields and relatively low default risk and the Fund is seeking to increase its exposure through various instruments while taking into account the investment criteria of the Fund.

Table 6. Development-related investments: book value as at 30 June 1996 and 30 June 1998 (Thousands of U.S. dollars)

Regions/countries	United States dollars	Other currencies	Total 1998	Total 1996
Africa				
Egypt	7 020		7 020	0
Ghana	7 122		7 122	7 122
Kenya	0	219	219	219
Mauritius	3 000	0	3 000	3 000
South Africa	34 639		34 639	93 528
Tunisia	4 350		4 350	4 633
Zimbabwe		3088	3 088	0
Regional funds	8 752	0	8 752	7 279
Subtotal	64 883	3 307	68 190	113 572
Development institutions	85 916		85 916	190 324
Total Africa	150 799	3 307	154 106	303 896
Asia				
China	6 845	5 934	12 779	33 916
Hong Kong, Special Administrative Region	16 050	70 460	86 510	156 980
India	25 703	1 840	27 543	24 260
Indonesia	1 875	0	1 875	10 383
Jordan	0	5 391	5 391	4 511
Malaysia	41 638	40 096	81 734	78 450
Pakistan	2 375	0	2 375	2 375
Philippines	13 524	53 409	66 933	49 655
Qatar	11 000	0	11 000	0 0
Republic of Korea	153 422	0	153 422	120 261
Saudi Arabia	5 125	0	5 125	0 0
Singapore	4 091	74 323	78 414	82 224
Regional funds	76 417	26 788	103 205	90 180
Subtotal	358 065	278 241	636 306	653 204
Development institutions	76 417		76 417	168 124
Total Asia	434 482	278 241	712 723	821 328
Europe				
Turkey	0	4 435	4 435	13 038
Regional funds	158 594	36 549	195 143	135 571
Total Europe	158 594	40 984	199 578	148 609
Latin America				
Argentina	55 165	0	55 165	58 295
Brazil	18 148	70 434	88 642	38 792
Chile	40 228	0	40 228	19 963
Colombia	296	0	296	9 255
Mexico	47 668	39 642	87 310	51 436
Peru	922	2 006	2 928	2 006
Regional funds	19 490	0	19 490	14 788
Subtotal	181 917	112 142	294 059	194 535
Development institutions	106 549	0	106 549	231 375
Total Latin America	288 466	112 142	400 608	425 910
Others				
IBRD	156 330	0	156 330	161 368
International Investment Trust	33 949	0	33 949	22 359
Total others	190 279	0	190 279	183 727
GRAND TOTAL	1 222 620	434 674	1 657 294	1 883 470

VI. BENCHMARK

33. In section VII of its resolution 49/224 of 23 December 1994 on the United Nations pension system, the General Assembly requested the Secretary-General to present in future reports to the Assembly on the investments of the Fund a fuller analysis of the performance of those investments and their significant components, including, where applicable, means of comparing performance with relevant benchmarks and other pension funds. The benchmark developed for the Fund is composed of two major indices: the Morgan Stanley Capital International World Index, which consists of 1,460 stocks from 23 countries with a market capitalization of about $15 trillion, and for bonds, the Salomon Brothers World Government Bond Index, which has a total market value of about $7 trillion. Most of the Fund's investments are in large capitalization companies and bonds denominated in major currencies in order to meet the criteria of liquidity and convertibility; therefore, it was felt that a composite of the two indices would be an appropriate benchmark. After carefully reviewing several proposals, and the composition of the two indices, the Investments Committee recommended and the Secretary-General approved a benchmark composed of 60 per cent Morgan Stanley Capital International World Index and 40 per cent Salomon Brothers World Government Bond Index. The performance of the benchmark is calculated by applying benchmark weightings to monthly returns of the components of the benchmark to determine the contributions of each component. The two contributions are added to get the monthly total return for the benchmark. The monthly returns are linked mathematically to get the total return for any period (quarter or year). The benchmark was implemented in January 1997.

VII. CONCLUSION

34. The period under review was marked by the turmoil in Asia, which highlighted once again the uncertainty and volatility faced by investors in the global financial markets. The Fund remains conscious of these risks and of the need to adhere to a strict discipline in tailoring its portfolios to ensure that it meets the goal of providing a real return on its investments without incurring undue risk. To this end, the Fund maintains its commitment to a broad diversification of its assets across currencies, geography and types of investments, always keeping in the forefront the criteria of safety, profitability, liquidity and convertibility. This continues to provide a cushion against the inevitable upheavals that occur in all asset classes in the financial markets. Despite turbulence in Asia and the emerging markets, the total return of 20.4 per cent for the year ended 31 March 1998 was the highest return during the past 10 years. The period reviewed represented the fifteenth and sixteenth consecutive years of positive investment returns for the Fund.

35. The Secretary-General, in close consultation with the Investments Committee and the three advisers of the Fund, has restructured the portfolio in order to take advantage of the volatility in the financial markets. The extent of diversification and the Fund's long-term investment strategy continue to protect the Fund from large losses during such periods.